

An estimate of the cost of child poverty in 2013

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Introduction

The full human cost of child poverty is impossible to estimate. Nobody can measure adequately the cost in physical or emotional suffering of growing up in a damp or overcrowded home, of having a parent who relies on charity to put food on the table or of going to school in shabby second hand clothes. But alongside the human cost, research has shown that child poverty has a huge financial cost which it is possible to estimate, and which is borne by us all.

In 2008, research commissioned by the Joseph Rowntree Foundation estimated that child poverty cost the country £25 billion a year.ⁱⁱ About half this cost stemmed from the fact that adults have lower productivity and a higher risk of unemployment if they suffer the disadvantages associated with growing up in poverty. The scale of this cost was estimated by Jo Blanden, Kirstine Hansen and Steve Machin of the University of London, based on evidence from cohort studies of the knock-on effects of financial hardship in childhoodⁱⁱⁱ. The other half was the additional public spending required to deal with social problems resulting from high levels of child poverty, estimated based on work by Glen Bramley and David Watkins, modelling the relationship between local poverty rates and observed spending levels by public services.^{iv}

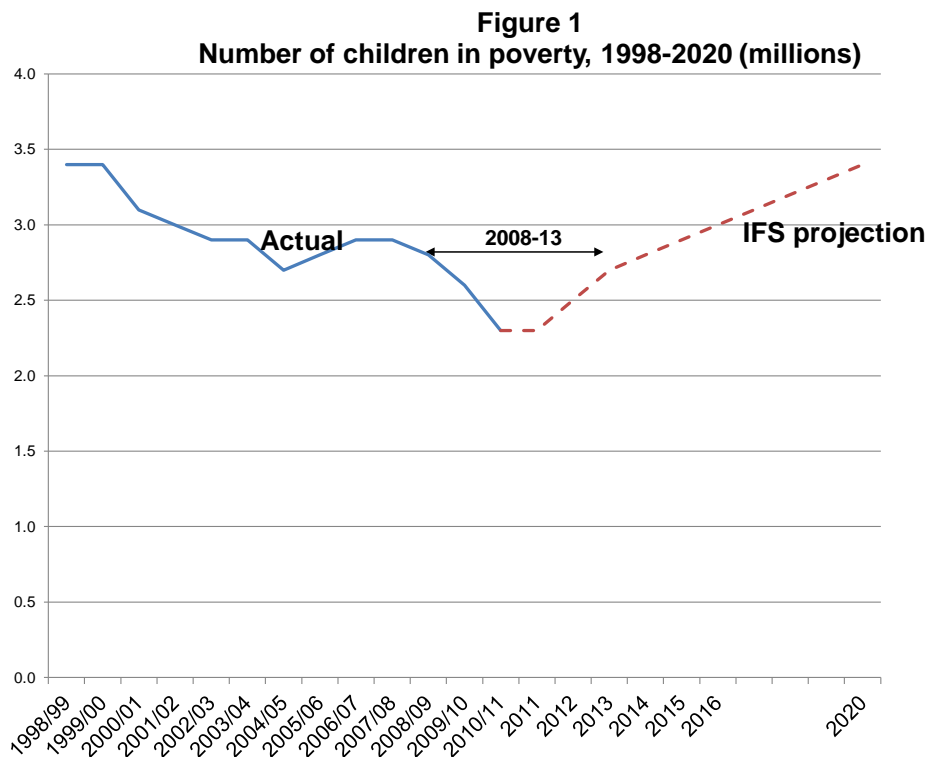
This short note presents calculations which update the 2008 estimate to 2013. Like the 2008 figure, it is not a precise calculation but rather an indicative figure: the original work used the principle of making a “cautious estimate”: where there were a range of potential effects it used the lower end of the cost range. Thus, the estimate represents a minimum of what child poverty is likely to cost the country, rather than a speculative figure of what it might cost in a worst-case scenario.

Trends and their effect on the cost of child poverty

The cost estimate of child poverty is influenced by four key variables: the level of child poverty itself; levels of benefits and earnings; general levels of public spending; and specific policies which direct public spending towards children in low income families.

The level of child poverty

The number of children living in poverty clearly influences its overall cost. Other things being equal, the cost will be proportional to this number. However, the rate of child poverty has not changed sufficiently since 2008 to affect the original cost estimate. As Figure 1 shows, although the percentage of children living below 60 per cent median income fell from 2008 to 2010, it has recently started to rise again. Moreover, the Institute of Fiscal Studies estimates that by 2020, it will be back at 3.4 million, close to its peak in the late 1990s, and this would have a big impact on the future cost of child poverty.



Sources: HBAI, IFS^v

Benefits and earnings levels

The levels of out-of-work benefits and of earnings influence the cost of child poverty figure, via the calculation of how much income is foregone to individuals and to the Treasury, as a result of the effect of child poverty on subsequent employment and earnings rates. Specifically, higher unemployment rates incur costs in proportion to benefit levels, while the loss of revenues both to wage-earners and HMRC caused by reduced earnings are likely to rise in proportion to the general increase in earnings. Even though, after adjusting for inflation, benefits^{vi} have stayed about steady and earnings^{vii} have fallen since 2008, their cash values have increased, and this influences the headline cost of child poverty.

General service spending levels

The calculation of additional spending on services due to child poverty, made in 2008, was based on observation of spending patterns within local areas. To the extent that spending was higher in areas with additional levels of child poverty, that

extra spending was taken to represent the additional costs that high poverty levels bring. This was expressed as a given percentage of spending on particular government functions being attributable to child poverty. Thus, as spending on any one function rises or falls, the actual amounts spent on alleviating the effects of child poverty can be assumed to change proportionately.

During the recent years of austerity, spending on some areas has fallen while on others it has risen, as shown in Table 1. For example, there is less public expenditure than in 2008 on children’s social services and criminal justice, while significantly more in cash terms is being spent on education and on health. These different areas contribute varying amounts to the cost of child poverty. Overall, the effect of general changes in spending produce a very minor increase in the cost in cash terms – less than it would have been had spending risen with inflation.

Table 1: Estimated additional spending by public services as a result of child poverty

Service	Contribution to cost of child poverty 2008/9, £billion	Estimated spending increase 2008/9-2013/14	Estimated contribution to cost of child poverty, 2013/14 £billion
Children’s Social Services	3.02	-9%	2.75
School education	3.06	18%	3.62
Police and criminal justice	1.31	-4%	1.26
Acute healthcare	1.28	16%	1.48
Fire and rescue	0.98	-6%	0.91
Remainder	2.64	0%	2.64
Total	12.30		12.65

Estimated spending increases derived from Treasury Figures^{viii}

It is important to note that in cases where cuts have been made, for example in children’s social services, this does not mean that the true cost of child poverty has gone down. It may mean that there is simply more unmet need for help. However, the direct cost to taxpayers is in this case diminished, although it might also store up more costs for the future due to children developing more serious problems as a result of later intervention.

New areas of targeted spending

While some needs may go unmet as a result of budget cuts, in other cases the present government has taken steps to direct money more specifically to disadvantaged families. The two most significant cases of this are the Pupil Premium, giving additional support to schools that admit children from low income families, and the extension of a free early year’s entitlement to two year olds in low income families. These cost £1.9 billion and £0.8 billion respectively. These are new costs of child poverty, in the sense of being new areas where government acknowledges that spending to help low income families with children needs to be made.

Adding up the cost of child poverty in 2013

Drawing on the above changes in combination with the original 2008 calculation of the cost of child poverty, the following estimates can be made for 2013:

- *Spending on services to deal with the consequences of child poverty* rose from £12 billion to **£15 billion**. Most of this increase is due to the addition of the pupil premium and the early years entitlement for two year olds
- *Tax receipts lost to government as a result of people earning less, having grown up in poverty*, rose from £3.3 billion to **£3.5 billion** due to a small increase in average earnings
- *Benefits spent on people who are out of work more as a result of growing up in poverty* rose from £2 billion to **£2.4 billion**, due to benefit upratings
- *Loss in private post-tax earnings by adults who have grown up in poverty* rose from £8 billion to **£8½ billion**

This raises the total cost of child poverty from £25 billion in 2008 to **£29 billion** in 2013.

The future

As noted above, these increases cover a period when child poverty has not changed overall, making changes in its cost relatively modest. If the projection of an increase in child poverty from around 2.7 million today to 3.4 million in 2020 is realised, this is likely to lead at least to a pro rata increase in the cost. This would bring the cost to *over £35 billion* in today's terms, equivalent to about 3 per cent of GDP. The prospect of facing this colossal bill for allowing child poverty to return to around its high point last seen in the late 1990s is a powerful incentive to devote resources instead to fulfilling the commitment, enshrined in the Child Poverty Act 2010, of its eradication.

ⁱⁱ Donald Hirsch, 2008, *Estimating the Cost of Child Poverty*, York: Joseph Rowntree Foundationⁱⁱⁱ
Blanden, J., Hansen, K. and Machin, S. (2008) *The GDP costs of the lost earning potential of adults who grew up in poverty*. York: JRF

^{iv} Bramley, G. and Watkins, D. (2008) *The public service costs of child poverty*. York: JRF, York: Joseph Rowntree Foundation

^v DWP 2012, *Households Below Average Income 1994/95 to 2010/11*, Table 4.3tr; Institute of Fiscal Studies, *Child and Working-Age Poverty in Northern Ireland from 2010 to 2020*, Table A.1

^{vi} Income Support rates, 2008 to 2013

^{vii} ONS Labour Market Statistics, April 2008 to April 2011/3

^{viii} Combining outturn figures up to 2011/12 shown at

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/179563/pesa_complete_2012.pdf.pdf table 5.2 with projections up to 2013/14 in HM Treasury Spending Review 2010